WORLD BANK NEWS

Volume XIV, No. 27 July 13, 1995

AP/Nabil Judah

World Bank President Visits Gaza

James Wolfensohn is beginning his job as president of the World Bank with an extensive tour of the Bank's work in the field. Since taking office on June 1, Wolfensohn has visited countries in Africa, Europe and the Middle East. Above, he meets one of the Bank's newest clients, a young Palestinian living in the Gaza Strip. During Wolfensohn's visit to Gaza, he and Palestinian leader Yasser Arafat (right) signed a new $20 million loan to help the Palestinians rehabilitate schools and health centers. See page 6 for details on Wolfensohn's upcoming trip through Latin America and the Caribbean.

LENDING

Bolivia Moves Ahead on 'Capitalization'

Thanks to a decade of strict economic reforms in Bolivia, and the new government's own broad-ranging plans to boost growth and improve living conditions, one of Latin America's poorest countries is posting substantial gains: inflation was 8 percent last year, down from more than 23,000 percent in the mid-1980s; GDP growth has climbed; and, for the first time in a decade, Bolivians are experiencing an increase in per capita income.

Despite these economic achievements, Bolivia has had trouble attracting private investment. Part of the problem lies in the government's ownership of industries that present strong growth potential but are weakly managed and capital-starved—hydrocarbons, telecommunications, electricity, mining and transportation.

Bolivia has created an innovative program to attract more private sector involvement in these key sectors. To back the plan the International Development Association (IDA) on July 6 approved a $50 million credit. Rather than simply selling the industries outright, as is done in most privatization programs, outside investors

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Bolivia Seeks Private Partners, Popular Support

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will inject fresh capital in exchange for a 50 percent controlling stake in each company. The state will then divide the remaining half of the shares in the companies on an equal basis among all four million adult Bolivians in the form of accounts in privately managed pension funds. The plan is called "capitalization," and countries from South Africa to the former Soviet Union see it as a possible model. Bolivia's approach doesn't send the proceeds of privatization into government coffers, but plows them back into the new company.

IDA approved a second credit of $10.6 million on July 6 to back reforms in the hydrocarbon sector. The credit will help the government prepare regulatory reforms needed to move ahead with capitalization of the state oil company (See Box).

"Capitalization is Bolivia's home-grown alternative to a straight sell-off of six of its most important state companies," says Susan Goldmark, a senior private sector development specialist in the Bank's Latin America and Caribbean region, and task manager for the Bolivian credit. "It is designed to capture the efficiency of private-sector led markets while establishing the widest social safety net that the Bolivian people have ever seen."

Here's how capitalization works:

- International companies bid on six large public industries that dominate key parts of Bolivia's economy (electricity, telecom, oil and gas, railways, airline and mining).
- The outside firm selected for a given state company will invest an amount equal to the market value of the state company, effectively doubling its worth.
- For its investment, the international partner will gain half the equity and full management control in the enterprise, and will invest this new capital in modernizing the company.
- The other half of the equity goes to all adult Bolivians in the form of shares in new national pension systems, shares that could exceed their average yearly earnings in some cases.

The plan's momentum is building. The successful sale of a large portion of the state-owned electric company on June 30 attracted bids 40 percent higher than the referenced price.

The IDA credit will back Bolivia's plan by helping the government prepare specific legislation and establish a sound regulatory framework for each sector, and enact institutional and legal reforms. The latter will help assure fair and swift adjudication of regulatory and commercial disputes.

These regulatory and legal reforms are essential to the success of Bolivia's capitalization program. Private agents must feel confident about the system in which they are investing. An institutional framework must be in place that ensures clarity, predictability and enforceability of the legal and regulatory principles governing an investor's activities. □

UNICEF/A. Graciano

Bolivia's new owners of industry.

☎ For more information *on Bolivia and the World Bank, contact Ciro Gamarra at (202) 473-8721, fax (202) 522-3698.*

Reforming Bolivia's Oil and Gas Sector

In Bolivia, the government's monopoly in the hydrocarbons industry has limited investment and economic growth in a sector of vital importance to the economy. Oil and gas industries represent 4.5 percent of GDP, 40 percent of treasury revenues, 25 percent of public investment and 10 percent of exports. But the current regulatory and legal framework does not provide the enabling environment needed to spur investment and develop open, competitive and efficient private sector involvement. An IDA technical assistance credit for $10.6 million approved July 6 will back the government's reform program for the sector.

As part of an overall capitalization assistance program, this IDA credit will help strengthen the institutions that monitor and regulate the oil and gas activities. The credit will also support the capitalization of YPFB, the state-owned oil company.

With proven reserves estimated at more than 880 million barrels of oil, potential reserves estimated at more than 4.8 billion barrels, and large unexplored sedimentary basins, the sector has strong potential for attracting foreign direct investment and providing needed resources for economic growth to Bolivia.

World Bank Roundup

Argentina A $165 million Bank loan approved July 6 will back Argentina's higher education reform program. The project is designed to raise the quality and efficiency of higher education, while establishing a competitive atmosphere among public and private institutions. Contact Ciro Gamarra (202) 473-8721, fax (202) 522-3698.

Bulgaria The Bank approved a $90 million loan July 6, to help Bulgaria rehabilitate its deteriorating railway system. The project aims to bring the rail system up to modern safety standards, replace and maintain key tracks and streamline management. Contact Jan Pakulski (202) 473-1797, fax (202) 676-0578.

El Salvador A Bank loan of $65 million approved July 6 will help El Salvador restructure its weak and inefficient energy sector and reform energy regulations. The project will improve service reliability and expand coverage by rehabilitating, modernizing and expanding power generation and distribution systems. Contact Ciro Gamarra (202) 473-8721, fax (202) 522-3698.

Haiti A $50 million IDA credit approved July 11 will help finance badly needed employment opportunities in Haiti. The project will provide short term employment to people in extreme poverty and help governments, NGOs and local community organizations to manage employment-intensive, small-scale development projects. Contact Ciro Gamarra (202) 473-8721, fax (202) 522-3698.

Honduras In spite of economic progress over the last two decades, per capita GDP in Honduras remains low. One third of the population lives in extreme poverty. A $30 million IDA credit approved July 11 will boost the government's efforts to alleviate poverty as it works to regain fiscal balance. Contact Ciro Gamarra at (202) 473-8721, fax (202) 522-3698.

India Fast-growing Bombay, India's largest city, has placed a higher priority on getting clean water to residents than in ensuring a sanitary sewage system. A Bank loan of $167 million and an IDA credit of $25 million approved July 6 will back a government sewage disposal project to remove domestic sewage and industrial waste from the city's natural water courses, surface water drains, shore line and beaches. Contact Paul Mitchell at (202) 458-1423, or fax (202) 477-1245.

Mongolia The government of Mongolia has launched a national poverty alleviation program during the country's economic transition. With help from a $10 million IDA credit approved July 6, the program aims to create employment opportunities for the poor, raise enrollment in basic education, reduce maternal and other mortality and provide assistance to handicapped and mentally retarded children. Contact Rachel McColgan-Mohamed at (202) 458-0358, or fax (202) 522-3405.

Nicaragua Nicaragua's economic reforms are bringing down inflation and beginning to spur growth. To help sustain poverty alleviation and social protection programs during the difficult reform period, IDA approved July 11 a $30 million credit to help finance a second social investment fund project. Contact Ciro Gamarra at (202) 473-8721, fax (202) 522-3698.

St. Lucia A $2.6 million Bank loan approved July 11 will help finance watershed and environmental management in the Caribbean nation of St. Lucia. The loan will aid rehabilitation of the hydraulic infrastructure of watersheds from damage caused by flooding and landslides and will strengthen environmental and flood preparedness capabilities. Contact Ciro Gamarra at (202) 473-8721, fax (202) 522-3698.

Senegal A $100 million IDA credit approved June 29 will help Senegal develop its water sector. The government's plan will increase the urban poor's access to safe water and adequate and more affordable sanitation. Water shortages are already chronic in the capital city, and sanitation systems are non-existent in many poor areas.

A second IDA credit of $12.5 approved June 29 aims to spur private-sector growth in Senegal. The credit will help the government launch its strategy to increase competitiveness and efficiency of private enterprises and improve the legal and regulatory system. Contact Eric Chinje at (202) 473-4467, or fax (202) 473-7917.

Sri Lanka More than a quarter of Sri Lanka's population is concentrated within the Columbo Metropolitan Area, which places a severe strain on existing infrastructure. A $39 million IDA credit approved June 29 will help improve municipal solid waste management, reduce wastewater pollution and develop the capabilities of local governments and institutions to plan and manage basic services. Contact Paul Mitchell at (202) 458-1423, or fax (202) 477-1245.

Zambia A $140 million IDA credit approved July 11 will back economic, financial, social security and mining sector reforms in Zambia. The credit aims to enhance macroeconomic stability, improve the competitiveness of Zambian products and promote investment, particularly in copper mining. Contact Eric Chinje at (202) 473-4467, or fax (202) 473-7917.

VERBATIM *World Bank Managing Director Richard Frank spoke in Nebraska recently on the growing importance of developing countries as agricultural trading partners.*

Food Trade and Developing Countries: A Growing Opportunity

"The World Bank's forecast is that over the next decade, industrial country economies will expand on average by 2.8 percent a year. Developing countries will grow by 4.9 percent a year, a significantly faster rate.

When the industrial countries were stagnating in the early 1990s, developing countries accounted for 70 percent of the increase in world output. Within ten years, they could contribute a quarter of world trade. Within 30 years, on current growth rates, the world's biggest economy will be China.

So developing countries have the people, and increasingly they have the income. But what about access? Can one get into these huge and rapidly expanding markets? The answer is definitely yes. All over the world, trade barriers are falling. Countries that previously pursued autarkic policies — notably in Latin America, South Asia and Africa — are relaxing the grip of the state and opening up to international business.

Developing countries were strong supporters of the Uruguay Round under the General Agreement on Tariffs and Trade — which you may remember nearly came to grief over protectionist disputes between industrial countries. We estimate that developing country exports will expand significantly faster than industrial country exports over the next decade.

More people, more money, and more access translate into more markets—especially for agriculture. Developing country food demand will probably more than double by the year 2025 and triple by 2050. Not only that, these markets are also changing character.

The rise in incomes is being accompanied by a rise in urbanization. By the year 2025, people in developing countries will be predominantly city dwellers. One consequence of higher incomes and bigger cities is that diets will change. The International Food Policy Research Institute in Washington, D.C. estimates that over the next 25 years developing country demand for foodgrains will rise by 75 percent. But demand for meat will rise by no less than 155 percent.

These shifts are already evident. Asians are eating more meat and wheat, and less rice. Africans are eating more wheat and rice, and fewer coarse grains, roots and tubers. The result is that demand for wheat and corn — American crops — will expand twice as fast as demand for rice. Rapidly rising meat consumption in developing countries will drive up demand for feed grains, as well as for meat itself.

The paradox is that even when poor countries increase their own food production — which they will — their food imports increase as well. One reason is that for some time while their incomes rise poor people spend a higher proportion of their earnings on food than better off people. Another reason is that greater efficiency in agriculture and the economy generally — partly resulting from World Bank assistance — lowers the relative price of food. And greater exposure to international markets encourages specialization, which may lead to shifts in the pattern of production and trade, not least in agriculture and food.

The most important area to which the Bank commits money, advice and networking is agriculture. Last year, we invested $3.9 billion, almost a fifth of total lending, in this sector. During its lifetime, the Bank has invested more than $70 billion in agriculture. Of $28 billion of outstanding agricultural commitments, $2 billion is in research. The Bank is one of the sponsors of the Consultative Group on International Agricultural Research, whose high-yielding wheat and rice varieties made the Green Revolution possible."

Brazil Loans Target Pollution, Poverty

Four recent World Bank loans to Brazil will help the country improve urban transport, reduce rural poverty and fight pollution.

Two loans approved June 29 target the development of efficient, safe and environmentally sound urban transport systems in the Recife Metropolitan Region—a $102 million loan—and the Belo Horizonte Metropolitan Region—a $99 million project. The projects will help decentralize the rail systems, and improve poor peoples' access to employment, health centers and schools.

A $211 million loan, also approved June 29, is designed to improve basic social services, jobs and income-generating opportunities in three poor rural states in the Northeast: Bahia, Ceara and Sergipe. About 50 percent of Brazil's poor live in rural areas, where the incidence of poverty is more than twice that of the large cities and urban centers. The project will help provide a safety net for the rural poor during the early stages of macroeconomic reforms.

Though Brazil has made significant steps in tackling environmental degradation, problems like industrial and urban pollution, deforestation, rapid urbanization and rural poverty still plague the country. A $50 million Bank loan approved July 11 will help finance pollution control and land reclamation, conservation and reforestation projects, better basic services—such as water and sanitation systems—in poor areas and basic environmental research. □

☎ For more information *on Brazil and the World Bank, contact Ciro Gamarra at (202) 473-8721, fax (202) 522-3698.*

Poverty and pollution.

Development Agenda

Date	Event	Sponsor	Location	Telephone
JULY				
18-19	Indonesia Consultative Group Meeting	World Bank	Paris	(33-1)4069-3016
18-19	Global Environment Facility Council Meeting	GEF	Washington	(202) 473-8324*
20-21	Uganda Consultative Group Meeting	World Bank	Paris	(33-1)4069-3016
AUGUST				
8	Presentation: China	The East-West Center	Honolulu	(202) 473-2763*
SEPTEMBER				
6-7	Macedonia Consultative Group	World Bank	Paris	(33-1)4069-3016
17	Status and Prospect of Science and Education in Africa	Third World Academy of Science	Abuja, Nigeria	(202) 473-4128*
22	Europe/East Asia Economic Summit: East Asia: What Will Sustain Growth	World Economic Forum	Singapore	(202) 473-2763*
27	1995 Philippine Economic Summit: Europe/East Asia Economic Summit	World Economic Forum	Manila	(202) 458-0344
OCTOBER				
4-6	Fourth Annual World Economic Development Congress	World Congress, Inc.	Washington	(617) 270-6204 (fax number)

Editor's Note: *Development Agenda* is a feature that alerts journalists to key news events in the field of economic development. Journalists should contact sponsoring agencies for details about each event. Asterisk (*) indicates telephone number is in the U.S.A. All other telephone numbers include country and city codes.

EVENTS

Wolfensohn to Visit Latin America and the Caribbean

James Wolfensohn, who assumed the presidency of the World Bank on June 1, will embark on his second regional visit this week, a six-nation tour of Latin America and the Caribbean.

Wolfensohn, who visited five countries in Africa in June and was in the Middle East last week, will go to Haiti, Jamaica, Brazil, Argentina, Colombia and Mexico. He will meet government and private sector leaders, representatives of civic and nongovernmental organizations, and participants in projects supported by the World Bank. The World Bank has committed more than $90 billion to the region since 1948. Wolfensohn will visit various Bank project sites to get a feel for the Bank's work on the ground.

Wolfensohn will conduct press briefings in the capital cities he visits, the details of which will be announced locally.

Stopping first in Haiti on July 13, Wolfensohn will meet with President Jean-Bertrand Aristide and other government officials and will visit Bank-supported projects.

On July 14, Wolfensohn will be in Kingston, Jamaica, where he will meet with Prime Minister P.J. Patterson and other government officials and visit several project sites. The World Bank has provided 58 loans to the island country since 1965, totaling about $1.22 billion.

On July 15, Wolfensohn will go to Brazil, where he will visit Manaus, Fortaleza, Salvador, Brasilia and Rio de Janeiro. In Brasilia, he will meet with President Fernando Henrique Cardoso and other officials. Current Bank assistance to Brazil is designed to strengthen local government, reduce poverty through local infrastructure projects as well as health and education programs, promote and finance infrastructure expansion and consolidate environmental management efforts.

M. Iannacci

James Wolfensohn

On July 18, Wolfensohn will arrive in Buenos Aires, Argentina. He will meet with President Carlos Saúl Menem and other officials in the capital, and then tour Bank-supported projects in Tucuman.

Wolfensohn will stop in Cartagena, Colombia, on July 21, where he will meet with President Ernesto Samper and other officials. In recent years, the Bank has expanded its lending to the country to support health care, nutrition, irrigation, telecommunications, and urban and rural development. Current loans are oriented toward social sector projects, the environment, and public sector modernization and decentralization.

On July 22, Wolfensohn will arrive in Mexico, his final stop in the region. He will meet with President Ernesto Zedillo and other government officials in Mexico City and visit the state of Chiapas. The Bank expects to lend more than $2 billion to Mexico in calendar year 1995 in response to the recent financial crisis.□

☎ For more information *on the Latin America visits, contact Merrell Tuck at (202) 473-9616 or fax, (202) 676-0578.*

IFC NEWS

IFC Invests in Farm, Finance and Gold Projects

The World Bank's International Finance Corporation (IFC) this week signed agreements to help finance an agribusiness firm in Thailand, a financial company in the Russian Far East and gold mining in the Kyrgyz Republic.

The Russian project, signed July 10, provides an equity investment of up to $5 million to establish Sector Capital Fund and the Sector Capital Development Company. The company will supply broad range investment banking services—including corporate finance, restructuring and privatization advice—mainly within the transport sector in the Russian Far East. For more information, contact Amy Conran at (202) 473-9119, or fax (202) 676-0365.

The investment agreement with Thailand's Saha Farms Group, signed July 11, provides a financing package of $70 million toward the company's expansion program. The company plans to construct a new farm, relocate a farm in suburban Bangkok to the Lop Buri province and increase its network of 2,000 contract farmers. The project will improve income distribution and economic opportunities in the region.

IFC will provide a $40 million financing package to the Kyrgyz Republic's first private sector gold mining project. In this first IFC investment in the country—signed July 11—the Kumtor Gold Company will mine one of the largest gold deposits in the world. The Dzety Oguz district has geological reserves of about 16.6 million ounces of contained gold. Gold mining is one of the country's most promising areas of economic activity. For the Thailand and Kyrgyz projects, contact L. Joseph at (202) 473-7700, or fax (202) 676-0365. □

WORLD BANK NEWS

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The World Bank Group is the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). IBRD is the main lending arm of the World Bank. IDA is the World Bank affiliate that lends on concessional terms to the poorest countries. IFC finances private sector projects and advises businesses and governments on investment issues. MIGA promotes foreign direct investment through guarantees, policy advice, and promotional services.

WORLD BANK NEWS

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INITIATIVES

International Donors Provide Big Backing for Small Loans

'Micro-Credit' Programs Can Reach the Very Poor

Complex development challenges frequently demand large-scale financial investments. National networks of health centers, schools and other infrastructure can cost poor countries millions of dollars. But innovative institutions throughout the developing world have also shown the power of small-scale investments, particularly when these "micro-loans" give the very poorest people new opportunities to earn livings.

Now the World Bank and international donors have launched an initiative to provide more than $200 million in backing to institutions that provide "micro-loans" to the very poor of the developing world. The new Consultative Group to Assist the Poorest (CGAP) will boost programs around the world that have demonstrated that impoverished families can become self-supporting on loans of as little as $100.

"Micro-level credit schemes help people help themselves by starting small-scale income generation projects and businesses," says James Wolfensohn, president of the World Bank, which will house the CGAP Secretariat. "They are a particularly effective way of reaching women, thereby helping to improve the incomes and well-being of their children and families."

Small enterprise, big benefits.

CGAP's founding meeting was held at the World Bank on June 27-28, during which preliminary pledges of about $200 million were made in cash and in programs by the World Bank, African Development Bank, Asian Development Bank, Canada, the European Commission, France, International Fund for Agricultural Development, the Netherlands, the United Nations Development Programme/ U.N. Capital Development Fund and the U.S. Agency for International Development. These pledges must still be reviewed and approved by the governing bodies of the institutions. Other potential partners in the CGAP include Australia, Denmark, Finland, Germany, the Inter-American Development Bank, Japan, Norway, Spain, Sweden, Switzerland and the United Kingdom.

The initial $200 million for CGAP can be turned into

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Small Loans Will Reach 50 Million Poor People

MICRO-LOANS, *from page 1*

loans for an estimated 1 million people annually, whose families number an estimated 5 million. Because the loans are almost invariably fully repaid in less than a year, the money can be relent, so that over a decade, a total of 10 million people and their 50 million family members could be assisted to move towards better livelihoods.

In several countries around the world, special "banks for the poor" have been set up to offer a combination of loans, advice and group training that encourages the very poor to begin small-scale businesses or family enterprises. Some have focused on providing loans of less than $1,500 to micro-enterprises that employ less than 10 people and help create jobs for the poorest. Many of these micro-enterprises are in the informal sector and have no access to the credit institutions of the formal banking sector. Most of the "banks" making micro loans, however, have been under-financed and unable to expand rapidly.

"The launching of this initiative is the most significant event in the world of micro-finance," says Muhammad Yunus, president of Bangladesh's Grameen Bank. "This is a beginning to a new future."Yunus will chair a panel of experts in micro-finance that will advise CGAP.

Grameen Bank and other similar "banks" have focused on self-employment and have promoted solidarity networks among the very poor. They lend without collateral and maintain very high repayment rates, frequently exceeding 98 percent.

"These loans have helped millions lift themselves out of extreme poverty. Many have provided the basis for flourishing infant industries and family enterprises throughout the developing countries," says Ismail Serageldin, the World Bank's vice president for Environmentally Sustainable Development and newly elected Chairman of CGAP. "The challenge is to reach many more of the very poor and to reach deeper to the poorest of society."□

☎For more information *on the CGAP, contact David Theis at (202) 473-1955, or fax (202) 676-0658.*

Bank Lending Rises in FY1995

China Tops List of Borrowers

New lending commitments by the World Bank to developing countries totaled $22.5 billion in fiscal year 1995, which ended June 30. This figure includes both the market-rate loans made by the International Bank for Reconstruction and Development (IBRD) and the concessionary loans made to the world's poorest countries through the International Development Association (IDA). The total compares to $20.8 billion in FY94 and $23.7 billion in FY93.

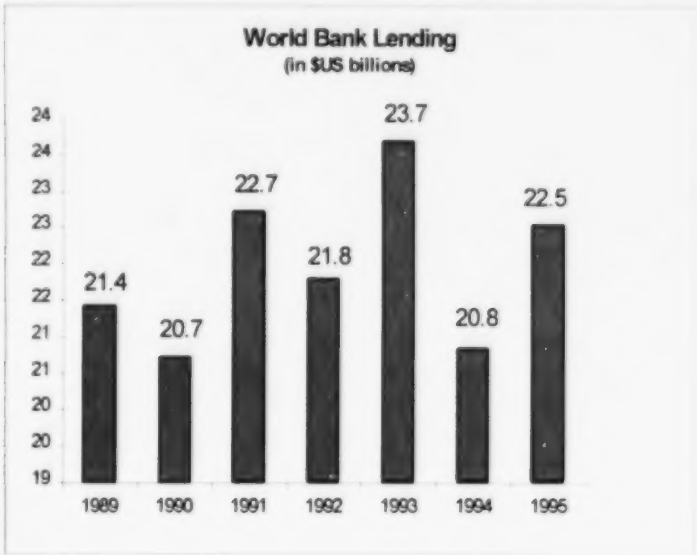
IBRD loan commitments in FY95 amounted to $16.9 billion–about three-quarters of the total–for 134 projects; $5.7 billion in IDA credits supported 108 projects. The respective totals for FY94 were $14.2 billion for 124 IBRD projects and $6.6 billion for 104 IDA projects. These totals mark an increase of 8.2 percent from FY94 lending.

"Perhaps the most heartening aspect of the lending numbers is the continued rise in the volume going to finance improvements in education, population, health and nutrition," says World Bank President James Wolfensohn. "This sort of investment is a foundation of sustainable economic growth–and the sharp increase in lending to human resource development in the last five years shows that our borrowing member countries recognize the importance of this investment as well."

IBRD/IDA combined gross disbursements at the end of FY95 were $18.5 billion, up from $15.9 billion in FY94. IBRD gross disbursements totaled $12.8 billion, compared with $10.4 billion in FY94; IDA gross disbursements were $5.7 billion, compared to $5.5 billion in the previous fiscal year.

Lending By Region

New lending commitments to Africa from IBRD/IDA in FY95 totaled $2.3 billion; in FY94 combined lending to the region totaled $2.8 billion. Out of the 58 projects in FY95, 54 were IDA credits. Multi-sector loans neared $471 million; agriculture was the largest single sector, followed by population, health and nutrition, and power. The decline in lending volume from FY94 was largely due to slower-than-anticipated progress in policy reform in several large countries on the continent.



The East Asia and Pacific region received $5.7 billion in new IBRD/IDA commitments–$4.6 billion for IBRD and $1.1 billion for IDA. Countries in the region received $6 billion from IBRD/IDA in FY94. The four sectors receiving the most support were power, transportation, agriculture and rural development and education. China was the region's largest borrower,

See **1995 Lending**, *page 4*

Development Agenda

Date	Event	Sponsor	Location	Telephone
JULY				
20-21	Uganda Consultative Group Meeting	World Bank	Paris	(33-1)4069-3016
25	Presidential Forum on Mgt. of Science and Technology for Development in Africa: Role of Agricultural Technology Development & Technology for Development in Africa	RANDFORUM	Kampala	(202) 473-4128*
AUGUST				
8	Speech on China: The Opportunity	The East-West Center	Honolulu	(202) 473-2763*
SEPTEMBER				
6-7	Macedonia Consultative Group	World Bank	Paris	(33-1)4069-3016
17	Status and Prospect of Science and Education in Africa	Third World Academy of Science	Abuja, Nigeria	(202) 473-4128*
22	Europe/East Asia Economic Summit: East Asia: What Will Sustain Growth	World Economic Forum	Singapore	(202) 473-2763*
27	1995 Philippine Economic Summit: Europe/East Asia Economic Summit	World Economic Forum	Manila	(202) 458-0344*
OCTOBER				
4-6	Fourth Annual World Economic Development Congress	World Congress, Inc.	Washington	(617) 270-6204* (fax number)
4-6	Third Annual Conference on Environmentally Sustainable Development	World Bank	Washington	(202) 473-9361*
10-12	Bank/Fund Annual Meetings	World Bank/IMF	Washington	(202) 473-1785*

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World Bank Social Lending Continues to Climb

1995 Lending, *from page 2*

and also the second largest borrower from IBRD in FY95, with nearly $2.4 billion for 12 projects, including 4 "blends"– projects that include both IBRD and IDA funds.

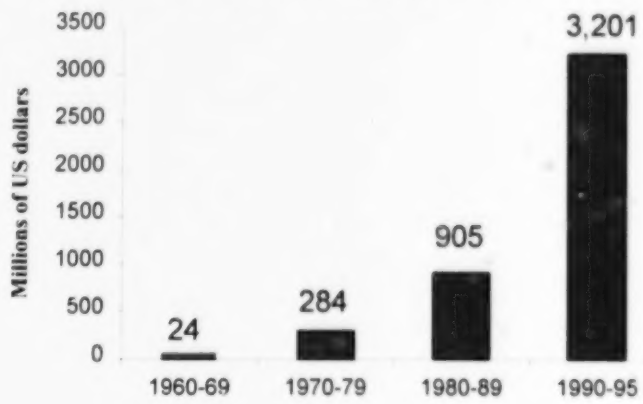
For South Asia, there were $3 billion of new IBRD/IDA commitments in FY95; of this amount, $1.6 billion was from IBRD and $1.4 billion was from IDA. This marks an increase in Bank lending from FY94, when combined lending was $2.4 billion. India was the region's largest borrower, which received loans totaling almost $2.1 billion. India was also the largest recipient of IDA credits in FY95, with $944.7 million for eight projects, including one blend. The financial sector received $916 million; while the Bank loaned $551.3 million to the region for agricultural and rural development, and lending for education was the third largest in FY95 at $423.7 million.

Lending to Europe and Central Asia increased 20 percent from FY94. 58 projects totaling $4.5 billion were approved in FY95–$4 billion from IBRD and $545 million from IDA. Loans to the region included a $99 million emergency recovery project to help Russia contain and clean up the enormous oil spill in the Komi Republic. The combined total in FY94 was $3.7 billion for 42 projects ($3.5 billion from IBRD; $192 million from IDA).

Commitments by IBRD/IDA to Latin America and the Caribbean in FY95 topped $6 billion—$5.7 billion for IBRD and $345 million for IDA. This marks an increase of almost $1.3 billion from FY94. Mexico was the largest borrower of IBRD funds on the whole in FY95; the country received $2.4 billion from IBRD for seven projects during the year, including a $500 million project to assist in protecting essential social services in education and health and to strengthen social programs that cushion the poor from the effects of Mexico's economic crisis.

New commitments to the nations of the Middle East and North Africa in FY95 amounted to $979 million, compared with $1.2 billion a year earlier. In addition, the World Bank loaned $20 million out of its net income to support the Education and Health Rehabilitation Project, which is financing education and health needs in Gaza. The loan, which was made on IDA terms, is part of a broader three-year program to meet basic education and health needs in the West Bank and Gaza.□

Average annual lending for education, population, health, and nutrition has risen dramatically



Ten Largest Borrowers in FY95

COUNTRY	IBRD/IDA ($m)
China	2,999.5
Mexico	2,387.4
India	2,063.5
Russia	1,741.3
Argentina	1,425.0
Indonesia	1,417.0
Pakistan	706.0
Ukraine	646.0
Brazil	552.0
Thailand	513.1
TOTAL	**14,450.8**

☎For more information *on the Bank's FY1995 Operational Results, contact David Theis at (202) 473-1955, or fax (202) 676-0658.*

WORLD BANK NEWS

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WORLD BANK NEWS

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LENDING

Boosting Confidence in Argentina's Banks

Trust Fund to Help Mergers, Acquisitions and Restructuring

Despite quick action by the Argentine government to protect its financial sector in the wake of Mexico's financial crisis last December, Argentina's banking system could not completely escape damage: depositors withdrew about $8 billion in the early part of this year, causing a major liquidity crisis; interest rates skyrocketed and the banking system came close to a fatal run on deposits. The central bank found itself severely strapped for cash, having lost $5 billion as a result of the crisis.

In March, the government launched a series of measures to counteract the crisis—it cut spending, boosted tax revenues and assembled an $11 billion support package. As a result of these efforts, financial markets began showing signs of recovery. While the crisis of confidence in Argentina's banking system has stabilized, many institutions are still experiencing financial difficulties as they recover from the loss of deposits.

AP/Wide World Photo

Crowding back into Argentine Banks?

The World Bank is backing Argentina's program of bank reforms with a $500 million loan approved July 25. The loan will provide balance-of-payments support during the reform period and strengthen a Trust Fund started by the government to help deal with distressed banks. The project will help consolidate a fragmented private banking sector, improve its financial structure and help restore confidence in the banking system.

"With the creation of the Trust Fund and with the new powers granted to the central bank to deal with troubled institutions, a viable approach to bank reform now exists," says Shahid Javed Burki, the Bank's vice president for Latin America and the Caribbean. "The Trust Fund will effectively broker mergers and acquisitions so that weak or insolvent banks can exit the system, al-

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LENDING

Oil Clean-up Averts Komi Catastrophe

Spill Largely Contained Before Spring Thaw

When the World Bank approved a $99 million emergency loan last April to help Russia clean up a massive oil spill in the Komi Republic, it joined a tight race against the seasons. More than 100,000 tons (730,000 barrels) of oil—three times the amount released during the Exxon Valdez spill—had to be contained or removed from bogs and creek beds before spring thaws released it into local river systems.

Now, warmer weather has come to the area and the Bank-supported round-the-clock clean-up crews have won their race. Quickly built dams and booms under Phase I of the Komi Oil Spill Recovery and Mitigation Project have largely kept spring floods from washing oil into the Kolva, Usa and Pechora rivers and, ultimately, the Barents Sea and salmon-rich waters. Nearly all the oil is contained, and any oil that escaped has been promptly removed.

World Bank

Crude crisis contained.

The 1994 spill—which occurred as a result of leaks from the Usinsk regional pipeline—was one of the world's largest. In autumn 1994, the temporary dams and dikes built to contain the oil failed, resulting in 170 acres (69 hectares) of oil-drenched tundra, including six major streams and dozens of minor creeks.

On April 25, 1995, the World Bank approved the $99 million loan, and on May 2, 1995, the European Bank for Reconstruction and Development approved a loan of $25 million. Both loans helped Russia and Komineft, the company that controls the pipeline, to:

- stabilize the oil in the spill area before the spring thaw to minimize the amount of oil released during runoff and prevent ecological damage in the Pechora River Basin;
- continue cleanup in an environmentally appropriate way and minimize damage to the areas and people;
- support safe pipeline operations in the short term and evaluate the need for a replacement pipeline investment project for the longer term; and
- find ways to prevent future oil spills.

Large amounts of oil were at risk of release during the spring thaw (usually in early May), when water levels can rise up to 30 feet.

The peak of the spring runoff has now passed. Despite the loss or near-loss of a number of dikes during the spring melt and the presence of much more mobile oil in some sites than previously recognized, water has receded in the Kolva River, and the risk of oil release due to dike or dam failure is now considered minimal. All dikes have been strengthened or rebuilt and are providing proper storage, and virtually no oil was released during Phase I of the cleanup.

Other activities underway include deployment of a large number of booms on the Kolva River to protect areas outside the containment structures, including oil previously trapped on the Kolva shoreline. A program of 24-hour river monitoring by boat is now in place, patrolling, testing water, skimming near shore, and recovering "oil sheen" in the area from Kolva village to the mouth of the Palnik Shor Creek.

Phase II cleanup activities have begun at all spill sites, and the number of cleanup personnel deployed is soon expected to exceed 800. The cleanup contractor, AES/Hartec, and Russian sub-contractors are again racing to remove as much gross oil as possible before the fall rainy period, when the containment structures will again be subjected to stresses. The oil is highly viscous, often the consistency of peanut butter, requiring specialized skimming and pump systems.

To date, replacing the risky middle section of the pipeline has not been as suc-

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Argentina's Banks Recovering, Still Vulnerable

ARGENTINA, *from page 1*

lowing a more orderly consolidation process, ultimately producing stronger banks."

The consolidation process has already begun. The number of commercial banks has dropped to about 130 from 168 in December 1994, and the Trust Fund will hasten mergers, acquisitions and restructuring by extending loans to qualified acquiring banks or investors, and banks that are merging or restructuring.

We are hopeful that the combination of strong supervision, clear trust fund incentives and forceful crisis resolution procedures will create a leaner and stronger banking sector.
—Danny Leipziger

The fund, with an expected life-span of two years, will not provide loans for the transfer of assets from one bank to another unless the emerging institution is fully capitalized and can stand unassisted. Furthermore, banks qualified for restructuring must undergo institutional diagnostic and follow-up plans, for which the Bank will provide advice.

"We are hopeful that the combination of strong supervision, clear trust fund incentives and forceful crisis resolution procedures will create a leaner and stronger banking sector," says Danny Leipziger, the Bank's lead economist for Latin America's Southern Cone and task manager for the project.

While consolidation will reduce the number of banks over the next five years, Argentina will still have proportionately more banks than Mexico, Chile or Brazil. Nevertheless, the retrenchment would force banks to cut costs, rationalize branch networks and introduce better technology. Most of all, ongoing reforms will allow the sector to regain investors' confidence.

This week's $500 million loan brings the amount of quick-disbursing support given by the World Bank to Argentina to $1 billion since the crisis began. On May 4, the Bank approved a $500 million loan to help the country privatize provincial banks. Argentina's economic fundamentals are sound, but the country remains vulnerable in light of its international capital requirements and the limited lender-of-last-resort capacity of its central bank. For this reason, strengthening the financial sector is one of the government's major priorities.□

☎*For more information on Argentina and the World Bank, contact Ciro Gamarra at (202) 473-8721, fax (202) 522-3698.*

Clean-up Moves into Next Phase

OIL, *from page 2*

cessful as the spill cleanup. Many early pipe welds did not pass inspection, and some of the pipe used was of poor quality.

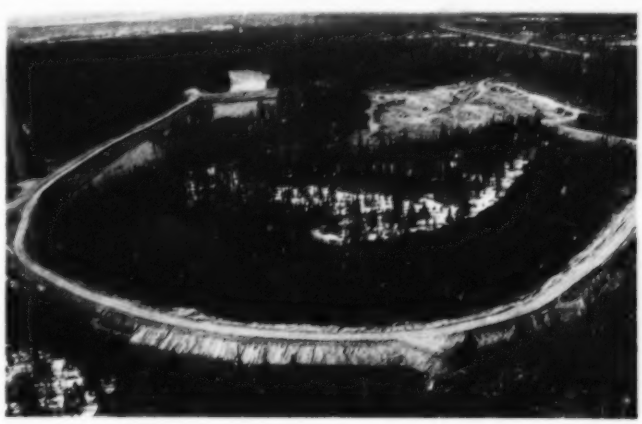
The pipeline was built piecemeal from 1975 to 1989 and has a history of leaks, caused in part by corrosion linked to oil-well fluids that are not removed prior to transport. Komineft has replaced the southern section of the line, source of most of the leaks, with a new parallel line. And the company is now well-along in replacing a 25-mile section farther to the North.

A remediation program, including replacement of the defective welds, has begun and pipes are now being replaced more rapidly.

A program of social support for affected downstream communities is underway, which includes: construction of water wells; provision of animal feed, medical supplies and other health care; site cleanup; grazing land remediation and recultivation; replacement of breeding cows; and removal of children from the site areas during the summer months.

A local non-governmental organization will provide monitoring support.□

☎*For more information on the Komi oil spill and the World Bank, contact Jan Pakulski at (202) 473-1797,* Fax: (202) 522-2633



World Bank

Contained.

VERBATIM

World Bank President James Wolfensohn recently concluded a six-nation tour of Latin American and Caribbean countries with a visit to Mexico. Wolfensohn met with Mexican President Ernesto Zedillo and toured Bank-supported projects in the poor state of Chiapas. Below is the text of a statement issued to the press at the conclusion of his visit.

Wolfensohn Visits Mexico

Stresses Commitment to Poorest

"I am very encouraged by the speed with which Mexico's macroeconomic outlook has improved as the government's plan announced on March 9 is starting to show results. My cautious optimism is shared by others outside Mexico as we are starting to see the return of capital to this country.

The World Bank has intensified its collaboration with the Mexican authorities in the aftermath of the crisis, and President Zedillo and I reviewed the support the Bank is providing to Mexico's priority sectors. Work is moving ahead to strengthen the banking system with the assistance of a $1 billion financial sector reform loan, approved by the Bank's board last month. We are also assisting the government with its plans to accelerate the privatization of Mexico's infrastructure.

However, neither the government nor the Bank have any illusions about the magnitude of the task ahead. Thanks in part to NAFTA, Mexico can eventually look forward to an export-led resumption of growth, but we believe that this will take at least a year. In the meantime, in a contracting economy with growing unemployment, there is a tremendous need to protect and provide opportunities for the poorest members of society, many of whom have been particularly affected by Mexico's financial crisis.

The World Bank recently made a $500 million loan for essential social services to support basic education, basic health, employment generation and targeted food and nutrition programs for vulnerable groups in Mexico. Indigenous people will benefit in particular from the education, health and nutrition components, as these are targeted towards the poorest areas of Mexico where indigenous populations are concentrated.

My choice of Chiapas as the one state in Mexico to include on my first visit to Latin America and the Caribbean as World Bank president was because of my personal commitment—and that of the Bank—to poverty alleviation. As one of the poorest states in the country, Chiapas is benefiting from a large number of Bank-supported projects. The majority of these have a special poverty focus, while other projects address environmental problems.

I wanted to see for myself the problems that the people in Chiapas face. I was able to visit several activities which the Bank is supporting, and to get a better understanding of the development challenges in this part of Mexico. I was also very pleased to have the opportunity to meet members of non-governmental organizations, anthropologists and educators who are doing such fine work on the ground to improve the social condition of the people of Chiapas.

The poorest states in Mexico, as well as the people throughout the country who are being adversely affected by the economic crisis can be assured of the priority the Bank—and I personally—place on their needs."

IFC NEWS

IFC Opens U.S. Private Debt Market to Mexican Firms

The International Finance Corporation has unveiled the first investment-grade long-term corporate debt securities to be issued by a single Mexican company since the peso devaluation of last December.

The project features a unique financing mechanism developed by IFC to bring new sources of long-term investment capital—primarily from insurance companies and pension funds—to emerging market companies. The deal marks the first time and IFC co-financing arrangement for a single company has received a credit rating from a major rating agency.

"This transaction represents a significant step in IFC's support for the Mexican private sector," says Helmut Paul, director of IFC's Latin America and the Caribbean Department. "The willingness of U.S. institutional investors to purchase securities with a 12-year maturity is a major vote of confidence in Mexico."

The loan sets an important precedent because Mexican corporations have not been able to issue debt with maturities longer than six months since the peso crisis. Before the crisis, Mexican companies seen as good credit risks could obtain debt financing of three to five years. The triple B+ investment-grade rating should provide powerful incentive for insurance companies and pension funds, which have been reluctant to invest in Mexico in recent months.

The loan will mobilize capital needed for private infrastructure projects and basic industries, which need long-term maturities. The IFC expects similar funding to be used successfully throughout Latin America and in other developing countries. □

☎ For more information *on the International Finance Corporation and Mexico, contact Mauricio Perea at (202)473-7997, fax (202)676-0365.*

Development Agenda

Date	Event	Sponsor	Location	Telephone
AUGUST				
8	Speech on China: The Opportunity	The East-West Center	Honolulu	(202) 473-2763*
SEPTEMBER				
6-7	Macedonia Consultative Group	World Bank	Paris	(33-1)4069-3016
17	Status and Prospect of Science and Education in Africa	Third World Academy of Science	Abuja, Nigeria	(202) 473-4128*
22	Europe/East Asia Economic Summit: East Asia: What Will Sustain Growth	World Economic Forum	Singapore	(202) 473-2763*
27	1995 Philippine Economic Summit: Europe/East Asia Economic Summit	Gov't of Philippines/ International Herald Tribune	Manila	(202) 458-0344*
OCTOBER				
4-6	Fourth Annual World Economic Development Congress	World Congress, Inc.	Washington	(617) 270-6204* (fax number)
4-6	Third Annual Conference on Environmentally Sustainable Development	World Bank	Washington	(202) 473-9361*
10-12	Bank/Fund Annual Meetings	World Bank/IMF	Washington	(202) 473-1785*
NOVEMBER				
12-15	Conference on Health Reform Around the Globe	Canadian Society for Int'l Health & Canadian University Consortium for Health in Development	Ottawa	(613) 230-2654

Editor's Note: *Development Agenda* is a feature that alerts journalists to key news events in the field of economic development. Journalists should contact sponsoring agencies for details about each event. Asterisk (*) indicates telephone number is in the U.S.A. All other telephone numbers include country and city codes.

Corporate Grant Backs Energy Program

The World Bank this week entered into a new partnership with a private company to promote better energy policies and energy efficiency throughout developing and transition countries. A two-year, $600,000 grant from the Marubeni Corporation of Japan to the joint UNDP-World Bank Energy Sector Management Assistance Program (ESMAP), is the first of its kind ever signed by the Bank to administer a grant from a private corporation. The funds will back ESMAP's global study programs and will help integrate oil and gas development issues into ESMAP activities.

"A main task of the ESMAP is making sure that policy and legal environments are conducive to private sector participation and development," says Richard Stern, director of Industry and Energy in the Bank's Finance and Private Sector Development operation. "When a private sector company is able to fund some of our work in this area, without itself gaining any special advantage, that's very encouraging."

Established in 1983 with the support of the United Nations Development Programme and 15 other bilateral or international donors, ESMAP focuses on policy and institutional reforms designed to promote increased private investment in energy and energy efficiency, natural gas development and renewable, rural, and household energy. To date, ESMAP has carried out more than 300 different technical assistance tasks in over 90 developing or transition economies. As a donor to ESMAP, the Marubeni Corporation, along with official donors, will participate in the annual meeting of the Consultative Group of ESMAP which decides on ESMAP's broad strategies and supervises the implementation of ESMAP activities.

"We have total discretion over how these new funds are used," says Stern. "This is fully consistent with the guidelines we were given by donors, who welcome such contributions provided they are completely untied."

☎For more information *on ESMAP and the World Bank, contact Henri Bretaudeau, tel. (202) 473-3412, fax: (202)676-9011.*

World Bank Roundup

ARGENTINA A $30 million Bank loan approved July 25 will boost Argentina's efforts to develop its mining industry, which is operating far below potential. Poor infrastructure and a lack of geological data have left large areas of mineral-rich land unexplored. This project will help build up Argentina's geological infrastructure, revise and reform the sector's legal and regulatory framework and encourage private investment in ways that avoid harmful environmental practices. Contact Ciro Gamarra at (202) 473-8721, or fax (202) 522-3698.

AZERBAIJAN Azerbaijan is reforming its financial sector as part of a comprehensive program of price and trade liberalization, privatization and private sector development. An IDA $18 million credit approved July 25 will help back Azerbaijan's reform program by helping the government privatize state-owned industry, strengthen its Ministry of Finance, modernize its central bank and create the legal and regulatory framework to develop a market economy. Contact Jan Pakulski, (202) 473-1797, or fax (202) 676-0578.

PAKISTAN The International Financing Corporation will provide $40 million in financing for three private leasing modarabas in Pakistan. The modarabas provide businesses with access to private capital in accordance with Islamic tenets, earning returns through leasing and other Islamic financing modes. Under the IFC investment, signed July 25, they will be able to increase their lending to small- and medium-scale enterprises. Contact Amy Conran (202) 473-9119, or fax (202) 676-0365.

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